

# Financial Statements of the United States Government for the Years Ended September 30, 2004, and September 30, 2003

## Statements of Net Cost

These statements present the net cost of fiscal years 2004 and 2003 Government operations. For the purposes of this document, “Government” refers to the United States Government. It categorizes costs by Chief Financial Officer Act entities and other significant entities. Costs and earned revenues are presented by department on an accrual basis, while the budget presents costs and revenues by obligations and outlays based on functions (for example, national defense or health) on a cash basis. In the Statements of Net Cost, the costs and earned revenues are divided between the corresponding departments and entities mentioned above, providing greater accountability by showing the relationship of the agencies’ net cost to the Governmentwide net cost. The focus of the budget of the United States is by agency. Budgets are prepared, defended, and monitored by agency. In reporting by agency, we are assisting the external users in assessing the budget integrity, operating performance, stewardship, and systems and control of the Federal Government.

These statements contain the following three components:

- Gross cost—This is the full cost of all the departments and entities. These costs are assigned on a cause-and-effect basis, or reasonably allocated to the corresponding departments and entities.
- Earned revenue—This is revenue the Government earned by providing goods and services to the public at a price.
- Net cost—This is computed by subtracting earned revenue from gross cost.

Because of their specific functions, most of the costs originally associated with the General Services Administration (GSA) and the Office of Personnel Management (OPM) have been allocated to and reflected in the costs of their user agencies. The remaining costs for GSA and OPM on the Statements of Net Cost are the administrative operating costs, the expenses from prior and past costs from health and pension plan amendments, and the actuarial gains and losses for these agencies. \$112.9 billion has been allocated out of OPM to the agencies. This represents health and pension benefits that are not reported in the individual agency statements. The interest on Treasury securities held by the public is part of the Department of the Treasury’s (Treasury) responsibilities, but because of its importance, and the dollar amounts, it is reported separately in these statements. Net cost for Governmentwide reporting purposes includes GSA and OPM agency allocations, and is net of intragovernmental eliminations. For this reason, individual agency net cost amounts will not agree with the agency’s financial statements.

## Statements of Operations and Changes in Net Position

These statements report the results of Government operations. They include unearned revenues that are generated principally by the Government’s sovereign power to tax, levy duties, and assess fines and penalties. These statements also cover the cost of Government operations, net of revenue earned from the sale of goods and services to the public (earned revenues). They further include any adjustments and unreconciled transactions that affect the net position.

### Revenue

Individual income tax and tax withholdings includes Federal Insurance Contributions Act (FICA)/Self-Employment Contributions Act (SECA) taxes and other taxes including payroll taxes collected from other agencies.

Excise taxes consist of taxes collected for various items, such as airline tickets, gasoline products, distilled spirits and imported liquor, tobacco, firearms, and others.

Miscellaneous earned revenues consist of earned revenues received from the public with virtually no associated cost. This category includes revenues generated by the Federal Communications Commission from the sale of spectrum licenses to promote open-air communication services to the public (spectrum auctions). It also includes rents and royalties on the Outer Continental Shelf Lands resulting from the leasing and development of mineral resources on public lands.

## **Net Cost of Government Operations**

The net cost of Government operations (which is gross cost less earned revenue) flows through from the Statements of Net Cost.

## **Unreconciled Transactions Affecting the Change in Net Position**

Unreconciled transactions are adjustments needed to bring the change in net position into balance due to unreconciled and unaccounted for differences in the consolidated financial statements. Refer to Note 16—Unreconciled Transactions Affecting the Change in Net Position for detailed information.

## **Net Position, Beginning of Period**

The net position, beginning of period reflects the net position reported on the prior year's balance sheet as of the end of that fiscal year.

## **Prior Period Adjustments**

Prior period adjustments are revisions to adjust the beginning net position and balances presented on the prior year financial statements. Refer to Note 1B—Basis of Accounting and Revenue Recognition, and Note 17—Change in Accounting Principle and Prior Period Adjustments for detailed information.

## **Net Position, End of Period**

The net position, end of period amount reflects the net position as of the end of the fiscal year.

## **Reconciliations of Net Operating Cost and Unified Budget Deficit**

The purpose of the reconciliation is to report how the proprietary net operating cost and the unified budget deficit relate to each other. The premise of the reconciliation is that the accrual and budgetary accounting basis share transaction data.

These statements report the reconciliation of the results of operations (net operating cost) on the Statements of Operations and Changes in Net Position to the unified budget deficit in the President's budget.

Receipts and outlays in the President's budget are measured primarily on a cash basis and differ from the basis of accounting measures used in the *Financial Report*. These statements begin with the net results of operations (net operating cost), where operating revenues are reported on a modified cash basis of accounting and the net cost of Government operations on an accrual basis of accounting. Reconciling items to (1) operating revenues include net

accrual related to taxes receivable and (2) net cost of Government operations include items such as changes in liabilities for military, veteran and civilian benefits, as well as depreciation expenses on fixed assets and changes in environmental liabilities.

## **Components of Net Operating Cost Not Part of the Budget Deficit**

This information includes the operating components, such as the changes of benefits payable for veterans, military and civilian employees, and the environmental liabilities and depreciation expense not included in the budget results.

## **Components of the Budget Deficit Not Part of Net Operating Cost**

This information includes the budget components, such as capitalized fixed assets, changes in accounts receivable, and increases in other assets not included in the operating results. These items are typically part of the balance sheets only, and are not part of the operating results.

## **Statements of Changes in Cash Balance from Unified Budget and Other Activities**

The primary purpose of these statements is to report how the annual unified budget deficit relates to the change in the Government's operating cash balance and debt held by the public. It explains why the unified budget deficit normally would not result in an equivalent change in the Government's operating cash balance.

These statements reconcile the unified budget deficit to the change in operating cash during the fiscal year, and explain how the budget deficits (fiscal years 2004 and 2003) are financed. A budget deficit is the result of expenditures exceeding receipts (revenue) during a particular fiscal year.

In depicting how the unified budget deficits were financed, these statements show that in fiscal years 2004 and 2003, the greatest amounts were net new borrowings from the public. Other transactions also required cash disbursements and are not part of the repayments of the debt. These other transactions, such as the issuance of student loans, required cash payments and contributed to the use of the surplus or deficit. These statements show the differences between accrual and cash budgetary basis, mainly because of timing differences in the financial statements.

## **Balance Sheets**

The balance sheets show the Government's assets and liabilities. When combined with stewardship information, this information presents a more comprehensive understanding of the Government's financial position. All of the line items on the balance sheets are described in the Notes to the Financial Statements.

### **Assets**

Assets included on the balance sheets are resources of the Government that remain available to meet future needs. The most significant assets that are reported on the balance sheets are property, plant, and equipment, inventories, and loans receivable. There are, however, other significant resources available to the Government that extend beyond the assets presented in these financial statements. Those resources include stewardship assets,

including natural resources (see Stewardship Information section), and the Government's sovereign powers to tax, regulate commerce, and set monetary policy.

Selected assets are highlighted in the Stewardship Information section of this report to demonstrate the Government's accountability for these assets. Stewardship assets include stewardship land and heritage assets.

## Liabilities and Net Position

Liabilities are obligations of the Government resulting from prior actions that will require financial resources. The most significant liabilities reported on the balance sheets are Federal debt securities held by the public and accrued interest and Federal employee and veteran benefits payable. Liabilities also include social insurance benefits due and payable as of the reporting date.

As with reported assets, the Government's responsibilities, policy commitments, and contingencies are much broader than these reported balance sheet liabilities. They include the social insurance programs disclosed in the Statements of Social Insurance in the Stewardship Information section and a wide range of other programs under which the Government provides benefits and services to the people of this Nation, as well as certain future loss contingencies.

The magnitude and complexity of social insurance programs, coupled with the extreme sensitivity of projections relating to the many assumptions of the programs, produce a wide range of possible results. The Stewardship Responsibilities section describes the social insurance programs, reports long-range estimates that can be used to assess the financial condition of the programs, and explains some of the factors that impact the various programs. Using this information, readers can apply their own judgment as to the condition and sustainability of the individual programs.

Each of the social insurance programs has an associated trust fund to account for its activity. The taxes collected for specific use are credited to the corresponding trust fund that will use these funds to meet a particular Government purpose. If the collections from taxes and other sources exceed the payments to the beneficiaries, the excess collections are invested in Treasury securities or "loaned" to the Treasury's general fund; therefore, the trust fund balances do not represent cash. An explanation of the trust funds for social insurance and many of the other large trust funds is included in Note 20—Dedicated Collections. That note also contains information about trust fund receipts, disbursements, and assets.

The Government has entered into contractual commitments requiring the future use of financial resources and has unresolved contingencies where existing conditions, situations, or circumstances create uncertainty about future losses. Commitments as well as contingencies that do not meet the criteria for recognition as liabilities on the balance sheets, but for which there is at least a reasonable possibility that losses have been incurred, are disclosed in Note 18—Contingencies and Note 19—Commitments.

Because of its sovereign power to tax and borrow, and the country's wide economic base, the Government has unique access to financial resources through generating tax revenues and issuing Federal debt securities. This provides the Government with the ability to meet present obligations and those that are anticipated from future operations and are not reflected in net position.

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**United States Government  
Statements of Net Cost  
for the Years Ended September 30, 2004, and September 30, 2003**

	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
(In billions of dollars)	<b>2004</b>			<b>2003</b>		
Department of Defense <sup>1,2</sup> .....	672.1	22.3	649.8	562.2	12.5	549.7
Department of Health & Human Services <sup>1,2</sup> .....	583.9	33.4	550.5	542.3	29.7	512.6
Social Security Administration .....	534.9	2.6	532.3	512.6	0.3	512.3
Interest on Treasury Securities held by the public .....	158.3	-	158.3	156.8	-	156.8
Department of Agriculture <sup>1,2</sup> .....	84.1	7.6	76.5	95.0	10.7	84.3
Department of the Treasury <sup>1,2</sup> .....	79.2	4.0	75.2	79.0	2.6	76.4
Department of Education .....	63.9	4.8	59.1	59.0	5.0	54.0
Department of Labor .....	58.6	-	58.6	68.1	-	68.1
Department of Transportation <sup>1,2</sup> .....	56.7	0.6	56.1	63.3	1.2	62.1
Department of Veterans Affairs .....	51.1	3.2	47.9	175.7	2.1	173.6
Department of Housing and Urban Development .....	41.8	1.3	40.5	44.1	2.0	42.1
Department of Homeland Security .....	45.7	5.7	40.0	27.5	2.6	24.9
Department of Justice <sup>1</sup> .....	35.4	0.8	34.6	30.7	1.3	29.4
Department of Energy <sup>1</sup> .....	27.3	4.9	22.4	2.0	5.3	(3.3)
National Aeronautics and Space Administration .....	17.3	0.1	17.2	12.9	0.1	12.8
Department of the Interior .....	18.8	2.2	16.6	16.0	4.7	11.3
Pension Benefit Guaranty Corporation .....	16.9	3.9	13.0	12.3	1.2	11.1
Department of State .....	13.9	1.3	12.6	12.7	1.4	11.3
Agency for International Development .....	10.7	0.1	10.6	10.3	0.1	10.2
Railroad Retirement Board .....	9.3	-	9.3	9.6	-	9.6
Environmental Protection Agency .....	9.5	0.3	9.2	9.5	0.4	9.1
Office of Personnel Management .....	22.3	13.9	8.4	0.3	-	0.3
Department of Commerce <sup>1</sup> .....	9.1	1.4	7.7	8.8	1.3	7.5
Federal Communications Commission .....	7.6	0.8	6.8	7.1	1.2	5.9
National Science Foundation .....	5.2	-	5.2	4.8	-	4.8
Small Business Administration <sup>2</sup> .....	2.1	0.5	1.6	5.0	0.7	4.3
Federal Deposit Insurance Corporation .....	0.8	0.2	0.6	(0.2)	0.2	(0.4)
Nuclear Regulatory Commission .....	0.8	0.5	0.3	0.7	0.5	0.2
Tennessee Valley Authority <sup>2</sup> .....	8.6	8.3	0.3	8.0	7.0	1.0
National Credit Union Administration .....	0.2	0.1	0.1	0.2	0.5	(0.3)
General Services Administration <sup>1</sup> .....	-	0.5	(0.5)	0.8	0.3	0.5
Export-Import Bank of the United States <sup>2</sup> .....	1.3	2.7	(1.4)	(0.3)	0.3	(0.6)
U.S. Postal Service .....	54.0	68.0	(14.0)	81.5	67.6	13.9
All other entities .....	30.6	11.1	19.5	34.6	2.0	32.6
<b>Total .....</b>	<b>2,732.0</b>	<b>207.1</b>	<b>2,524.9</b>	<b>2,652.9</b>	<b>164.8</b>	<b>2,488.1</b>

<sup>1</sup> These agencies reorganized and transferred various programs and operations to the newly created Department of Homeland Security. The majority of the assets and expenses transferred were in fiscal year 2003, immaterial transfers have taken place in fiscal year 2004.

<sup>2</sup> 2003 numbers have been restated to reflect a change in presentation for immaterial prior period adjustments previously published as adjustments to net position.

The accompanying notes are an integral part of these financial statements.

**United States Government**  
**Statements of Operations and Changes in Net Position**  
**for the Years Ended September 30, 2004, and September 30, 2003**

(In billions of dollars)	2004	2003
<b>Revenue:</b>		
Individual income tax and tax withholdings .....	1,512.3	1,481.3
Corporation income taxes.....	183.8	128.2
Unemployment taxes .....	36.8	31.2
Excise taxes.....	72.5	67.6
Estate and gift taxes .....	24.8	21.9
Customs duties .....	21.0	19.0
Other taxes and receipts.....	47.7	39.8
Miscellaneous earned revenues .....	13.8	7.0
Total revenue .....	1,912.7	1,796.0
 <b>Less net cost of Government operations<sup>1</sup></b> .....	 2,524.9	 2,488.1
Unreconciled transactions affecting the change in net position (Note 16).....	( 3.4)	24.5
<b>Net operating cost</b> .....	<u>(615.6)</u>	<u>(667.6)</u>
 <b>Net position, beginning of period</b> .....	 <u>(7,094.2)</u>	 <u>(6,820.2)</u>
Change in accounting principle (Note 17) .....	-	383.1
Prior period adjustments (Note 17).....	-	10.5
Net operating cost.....	<u>(615.6)</u>	<u>(667.6)</u>
 <b>Net position, end of period</b> .....	 <u><u>(7,709.8)</u></u>	 <u><u>(7,094.2)<sup>1</sup></u></u>

<sup>1</sup> 2003 numbers have been restated to reflect a change in presentation for immaterial prior period adjustments previously published as adjustments to net position.

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**United States Government**  
**Reconciliations of Net Operating Cost and Unified Budget Deficit**  
**for the Years Ended September 30, 2004, and September 30, 2003**

(In billions of dollars)	2004	2003
<b>Net operating cost<sup>1</sup></b>	<b>(615.6)</b>	<b>(667.6)</b>
<b>Components of Net Operating Cost Not Part of the Budget Deficit:</b>		
<b>Increase in Liability for Military Employee Benefits (Note 11):</b>		
Increase in military pension liabilities	98.7	9.0
Increase in military health liabilities	42.3	91.0
Increase in other military benefits	2.4	1.1
Increase in liability for military employee benefits	<u>143.4</u>	<u>101.1</u>
<b>Increase in Liability for Veterans Compensation and Burial Benefits (Note 11):</b>		
(Decrease)/increase in liability for veterans	(39.7)	93.3
Increase in liability for survivors	9.6	12.5
Increase/(decrease) in liability for burial benefits	0.1	(0.2)
(Decrease)/increase in liability for veterans compensation	<u>(30.0)</u>	<u>105.6</u>
<b>Increase in Liability for Civilian Employee Benefits (Note 11):</b>		
Increase in civilian pension liabilities	39.8	60.6
Increase in civilian health liabilities	21.7	23.0
Increase in other civilian benefits	7.2	0.3
Increase in liability for civilian employee benefits	<u>68.7</u>	<u>83.9</u>
<b>Decrease in Environmental Liabilities (Note 12):</b>		
Decrease in energy's environmental liabilities	(1.7)	(26.2)
Increase in all others' environmental liabilities	1.0	3.1
Decrease in environmental liabilities	<u>(0.7)</u>	<u>(23.1)</u>
Depreciation expense	89.9	71.2
Property, plant, and equipment disposals and revaluations	0.2	13.0
Increase in benefits due and payable (Note 13)	2.9	4.7
(Decrease)/increase in taxes receivable (Note 5)	1.6	(1.5)
Increase in other liabilities (Note 14)	32.3	25.1
Seigniorage and sale of gold	(0.7)	(0.6)
(Decrease)/increase in accounts payable (Note 9)	<u>(2.1)</u>	<u>6.4</u>
<b>Components of the Budget Deficit Not Part of Net Operating Cost:</b>		
<b>Capitalized Fixed Assets:</b>		
Department of Defense	(83.2)	(67.5)
Civilian agencies	<u>(28.9)</u>	<u>(34.5)</u>
Total capitalized fixed assets	<u>(112.1)</u>	<u>(102.0)</u>
Increase in accounts receivable (Note 3)	(1.3)	(1.8)
Increase/decrease in inventory (Note 6)	(8.8)	17.5
Increase in other assets (Note 8)	(11.7)	(12.3)
Principal repayments of precredit reform loans	8.5	9.1
Net amount of all other differences	<u>23.2</u>	<u>(3.5)</u>
<b>Unified budget deficit</b>	<b><u>(412.3)</u></b>	<b><u>(374.8)</u></b>

<sup>1</sup> 2003 numbers have been restated to reflect a change in presentation for immaterial prior period adjustments previously published as adjustments to net position.

The accompanying notes are an integral part of these financial statements.

**United States Government**  
**Statements of Changes in Cash Balance from Unified Budget and Other Activities**  
**for the Years Ended September 30, 2004, and September 30, 2003**

(In billions of dollars)	2004	2003
<b>Unified budget deficit .....</b>	(412.3)	(374.8)
<b>Adjustments for Noncash Outlays Included in the Budget:</b>		
Interest accrued by Treasury on debt held by the public .....	(145.6)	(143.3)
Subsidy expense (Note 4) .....	6.6	11.8
<b>Items Affecting the Cash Balance Not Included in the Budget:</b>		
<i>Net Transactions from Financing Activity:</i>		
Repayment of debt held by the public.....	4,379.5	3,914.7
Borrowings from the public.....	(4,759.2)	(4,289.1)
Total.....	(379.7)	(374.4)
<i>Net Transactions from Monetary Activity:</i>		
Increase in special drawing rights.....	0.7	0.4
Increase/(decrease) in other monetary assets .....	(1.3)	(26.5)
Increase in loans to the IMF .....	(4.6)	3.2
Total.....	(5.2)	(22.9)
<i>Net Transactions from Other Activities:</i>		
Net direct loan activity .....	5.5	1.3
Interest paid by Treasury on debt held by the public .....	144.7	144.4
Net guaranteed loan activity .....	(16.7)	(5.8)
Decrease in miscellaneous assets .....	0.5	(0.4)
Increase in allocations of special drawing rights .....	(0.2)	(0.5)
Increase in deposit fund balances .....	(2.9)	(2.8)
(Increase)/Decrease in miscellaneous liabilities .....	(1.2)	7.1
Seigniorage and other equity .....	(0.7)	(0.6)
Reclassification of aged unreconciled accounts .....	-	0.1
NRRIT non-Federal securities <sup>1</sup> .....	2.4	21.3
Total.....	131.4	164.1
<b>Disposition of Deficit .....</b>	<b>(392.5)</b>	<b>(364.7)</b>
Decrease in operating cash balance .....	(19.8)	(10.1)
<b>Operating Cash: (Note 2)</b>		
Operating cash balance beginning of period .....	50.8	60.9
Operating cash balance end of period ...	31.0	50.8

<sup>1</sup> For more information, see Railroad Retirement in the Stewardship Information section (page 90).

**United States Government  
Balance Sheets  
as of September 30, 2004, and September 30, 2003**

(In billions of dollars)	2004	2003
<b>Assets:</b>		
Cash and other monetary assets (Note 2) .....	97.0	119.6
Accounts receivable, net (Note 3) .....	35.1	33.8
Loans receivable, net (Note 4) .....	220.9	221.1
Taxes receivable, net (Note 5) .....	21.3	22.9
Inventories and related property, net (Note 6).....	261.5	252.7 <sup>1</sup>
Property, plant, and equipment, net (Note 7) .....	652.7	658.2
Other assets (Note 8) .....	108.8	97.1
Total assets.....	<u>1,397.3</u>	<u>1,405.4</u>
<b>Liabilities:</b>		
Accounts payable (Note 9) .....	60.1	62.2
Federal debt securities held by the public and accrued interest (Note 10) .....	4,329.4	3,944.9
Federal employee and veteran benefits payable (Note 11) .....	4,062.1	3,880.0
Environmental and disposal liabilities (Note 12).....	249.2	249.9
Benefits due and payable (Note 13).....	102.9	100.0
Loan guarantee liabilities (Note 4).....	43.1	34.6
Other liabilities (Note 14) .....	260.3	228.0 <sup>1</sup>
Total liabilities .....	9,107.1	8,499.6
Contingencies (Note 18) and Commitments (Note 19)		
<b>Net position</b> .....	<u>(7,709.8)</u>	<u>(7,094.2)<sup>1</sup></u>
Total liabilities and net position .....	<u>1,397.3</u>	<u>1,405.4</u>

<sup>1</sup> Restated – See Note 17.

The accompanying notes are an integral part of these financial statements.